

**SOUTH CAROLINA DEPARTMENT OF PARKS,
RECREATION AND TOURISM**

COLUMBIA, SOUTH CAROLINA

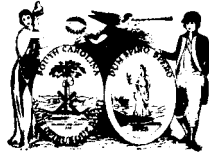
STATE AUDITOR'S REPORT

JUNE 30, 2001

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State of South Carolina



Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 5, 2002

The Honorable Jim Hodges, Governor
and
Mr. John Durst, Executive Director
South Carolina Department of Parks, Recreation and Tourism
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the Director and management of the South Carolina Department of Parks, Recreation and Tourism, solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2001, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year to determine the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

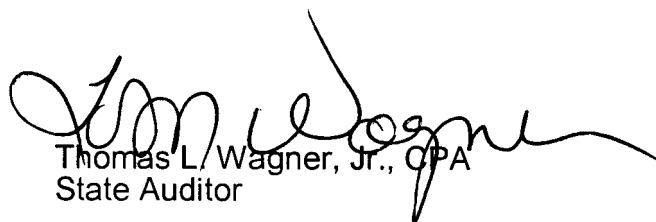
2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; and comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Payroll and Distribution of Employer Contributions in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries and all operating and appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The journal entries selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2001, and tested selected reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2001. Our findings as a result of these procedures are presented in Payroll, Distribution of Employer Contributions, Closing Packages and Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Department resulting from our engagement for the fiscal year ended June 30, 2000, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in Closing Packages and Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2001, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Closing Packages in the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2001, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Schedule of Federal Financial Assistance in the Accountant's Comments section of this report.

The Honorable Jim Hodges, Governor
and
Mr. John Durst, Executive Director
South Carolina Department of Parks, Recreation and Tourism
July 5, 2002

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the management of the South Carolina Department of Parks, Recreation and Tourism is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

PAYROLL

We tested 25 termination pay transactions and found that four contained errors that resulted in a net overpayment of \$824. These errors are described as follows:

1. One employee was paid for two pay periods for which she did not work because she did not notify the Agency of her resignation. Of the amount overpaid, a portion was recovered by withholding her annual leave pay. However, we found no evidence of an attempt by the Agency to recover the remaining overpayment of \$861.
2. Another employee was paid for one more day than he actually worked resulting in an overpayment of \$73.
3. The third employee was underpaid \$257 because the Agency miscalculated the number of working days in the pay period.
4. An employee was overpaid \$147 because the Agency calculated the final pay based on the employee's hourly rate instead of the daily rate.

An effective accounting system includes adequate control procedures (e.g., independent reviews of pay computations and independent verification of termination dates, pay rates, etc.) to help ensure that errors will be detected and corrected in a timely manner, that payroll checks will be processed for the proper amounts, and that any overpayments will be recovered in a timely manner. In addition, Section 8-11-30 of the South Carolina Code of Laws states that it is unlawful for anyone employed by the State to receive salary from the State or any of its departments which is not due.

We recommend that the Agency implement procedures to ensure that terminating employees submit resignation notices in a timely fashion in order to properly remove the employees from the payroll. Should such employees fail to do so, notification should be made by their immediate supervisor. We also recommend that final pay calculations are independently checked for mathematical accuracy and all information used in those computations is independently verified with source documents. Finally, we recommend that the Agency attempt to recover the overpayments and correct the underpayment.

DISTRIBUTION OF EMPLOYER CONTRIBUTIONS

Annually, the Department distributes employer contribution expenditures to individual funds based on the pro rata share of employees salaries paid by each fund. For fiscal year 2001 (FY01) the Department initially made the appropriate distribution to its earmarked funds. However, based on our inquiry and analysis, we found that the Department prepared a journal entry to move \$236,524 of employer contributions charges from the earmarked funds to general fund appropriations.

We were told that the Department's intent was to retain earmarked funds in favor of general funds that would ultimately lapse. This misallocation of employer contributions is a violation of the FY01 Appropriation Act 63G.1. which states, "It is the intent of the General Assembly that any agency of the State Government whose operations are covered by funds from other than General Fund Appropriations shall pay from such other sources a proportionate share of employer costs of retirement, social security, workmen's compensation insurance, unemployment compensation insurance, health and other insurance for active and retired employees, and any other employer contribution provided by the State for the agency's employees."

We recommend that the Department allocate the proportionate amount of employer contributions to each fund as required by state law.

CLOSING PACKAGES

Introduction

The State Comptroller General's Office obtains certain generally accepted accounting principles (GAAP) information from agency-prepared closing packages to prepare the State's financial statements. Section 1.8 of the GAAP Closing Procedures Manual (GAAP Manual) states that each agency is responsible for submitting accurate and complete closing package forms that are completed in accordance with instructions. Section 1.9 requires agencies to keep working papers to support each amount they enter on each closing package form. The GAAP Manual recommends an effective review of each closing package and the underlying working papers to minimize closing package errors and omissions. To assist in performing effective review, the GAAP Manual instructions require a reviewer checklist to be completed for each closing package submitted.

Operating Leases Closing Package

During our review of the operating leases closing package we noted several errors that understated future minimum lease payments and executory costs by \$33,738 and \$16,892, respectively. First of all, the Agency included sales tax in its calculation of future minimum lease payments and executory costs. GAAP Manual Section 3.19 states that executory costs that the lessee must pay outside of the minimum lease payment to the lessor (for example, maintenance, taxes, or insurance that the lessee pays to a third party apart from the minimum lease payment) are not executory costs included as part of the minimum lease payment, and consequently should not be reported on the closing package or supporting materials. Secondly, the Agency failed to report on the closing package future lease payment information for two leases. According to Agency personnel, the procurement department is responsible for

preparing the lease register for each operating lease. The procurement department then sends a list of all leases for which registers are prepared to the finance department so that the closing package can be completed. We were told that list received by the finance department was incomplete.

Operating Lease - Lessor Closing Package

Our test of the Agency's operating lease – lessor closing package disclosed that the Agency incorrectly reported the future rental payments for a communications tower at Hunting Island. The Agency omitted the entire fiscal year 2003 rental payments and incorrectly prorated the final year payments. These errors resulted in an understatement of \$10,626 in future rental payments to be received.

GAAP Manual Section 3.20 states that FASB 13 requires the State to disclose in its financial statements, for operating leases in which it acts as lessor, the minimum future rental payments to be received on noncancellable leases in effect as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years.

Accounts Payable Closing Package

The Department reported \$75,407 in contract retentions from payments to contractors for construction projects 9609 and 9632 under the repair, maintenance, and renovation category (GAAP Fund Code 2007) on the accounts payable closing package. Regarding completion of the Accounts Payable Summary Form — Permanent Improvements, Section 3.12 of the GAAP Manual directs the preparer to Appendix F which lists project numbers and corresponding GAAP fund codes. Appendix F shows project numbers 9609 and 9632 correspond to GAAP Fund Code 2060; therefore, it should have been reported under the capital projects category, not the repair/renovation category.

Fixed Assets Closing Package

The Department reported net corrections to prior year balances for machinery, equipment and other assets of \$49,015 on the General Fixed Assets Summary Form. Of this amount, we were only able to agree \$41,833 to supporting documentation. The Department was unable to explain the difference. A similar finding pertaining to unexplained differences was noted in the prior two agreed-upon-procedures reports.

The Department also reported new contract retentions of \$112,369 on the Fixed Assets Reconciliation Form. Of this amount, only \$75,407 relates to capital projects (GAAP Fund Code 2060). Therefore, the Agency overstated its June 30, 2001 balance for construction in progress by \$36,962.

GAAP Manual Section 1.9 requires Agencies to keep working papers to support each amount they enter on each closing package form. Also Section 3.10 instructs the preparer to enter new contract retentions for the current fiscal year for GAAP Fund Code 2060 — Capital Projects.

Miscellaneous Receivables Closing Package

The Agency reported miscellaneous accounts receivable for Hickory Knob State Park of \$76,653, an increase of \$72,105 from the prior year. When we inquired about this significant increase, the Agency told us that the listing of miscellaneous receivables included accounts that had already been received during fiscal year 2001. We were also told that the Agency is in the process of identifying these accounts and did not know the amount of the error which overstated accounts receivable, revenues, and deferred revenues.

The reviewer's checklist in the GAAP Manual asks the reviewer the reasons for significant variances between prior and current reported amounts. Had this step been performed, the Department could have detected the error prior to submission of the closing package.

Recommendations

We recommend that the agency carefully review and follow applicable GAAP Manual instructions for completing all closing packages. The Department should ensure that employees who complete and independently review the closing packages are properly trained in and knowledgeable of GAAP and GAAP Manual guidance and instructions for preparation of closing packages. Also, the Department should ensure that all amounts are properly supported with complete documentation. Finally, the Agency should report the appropriate net corrections to prior year amounts on its fixed assets closing package for fiscal year 2002 for the errors noted herein.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

We reviewed the Agency's schedule of federal financial assistance for fiscal year 2001 and noted the following deficiencies:

1. The Agency listed 3 grants with the incorrect CFDA number.
2. Nine grant titles did not correspond to the title in the CFDA catalog.
3. The Agency listed 7 grants with the incorrect fund source code.
4. The Department did not maintain supporting documentation (e.g., grant award letter) for two grants.

Similar deficiencies regarding differences between information on the schedule and that in the accounting records were reported in the two prior agreed-upon procedures reports.

The State Auditor's letter of instructions describes to each agency responsibilities for preparing and submitting its schedule of federal financial assistance to the State Auditor's Office.

We recommend that the Agency provide staff appropriate training and document and implement written, agency-specific procedures regarding the preparation and independent review of its schedule of federal financial assistance in accordance with the State Auditor's instructions to ensure all information thereon is correct, complete, and agrees with the accounting records and with supporting documentation for the schedule, including the CFDA catalog.

SECTION B - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the Report on Agreed-Upon-Procedures on the Department's accounting records and internal controls for the fiscal year ended June 30, 2000, and dated May 9, 2001. We determined that the Department has taken adequate corrective action on each of the findings except for Closing Packages (subsections pertaining to fixed assets and accounts payable) and Schedule of Federal Financial Assistance which have been repeated in Section A of the Accountant's Comments section of the report.

MANAGEMENT'S RESPONSE

South Carolina

Department of Parks, Recreation & Tourism

Division of Administration

September 16, 2002

Mr. Thomas L. Wagner, Jr., CPA
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

We have reviewed the Accountant's Comments for the year ended June 30, 2001 and herein submit our comments:

Accountant's Comments

Payroll

The Human Resource Management Office understands the importance of timely resignation notices and will ensure that supervisors and managers are reminded of this, as well. We also understand that not all employees will submit a written resignation and will require the supervisors and managers to submit an email that can be used as notification.

The Human Resource Management Office understands the laws and regulations regarding employee pay and have revised final pay calculations to be independently checked for mathematical accuracy and verified with all source documents. It is also understood that any overpayments and underpayments should be corrected. Upon review of the payroll overpayment (item #1) referenced in the audit it was determined correspondence was sent to the employees attorney of record requesting remittance of the overpayment. A copy of the correspondence is on file for your review.

Distribution of Employer Contributions

The Department understands the Appropriation Act and will follow the Act for distribution of employer contribution. The Department's intent was to retain earmarked funds in favor of general funds that would ultimately lapse. The journal voucher should have moved both payroll and fringe benefits proportionately but the fringe benefit line was the only line that was included in the journal voucher and was a mistake on our part. The department has and will continue to follow all rules and regulations as stated in the Appropriation Act for FY2002 and FY2003 for the allocation of fringe benefits.

Operating Leases Closing Package/Operating Lease - Lessor Closing Package

The Department understands and agrees with the reporting errors within both packages. This package miscalculated the future rental payments of the Hunting Island Tower and omitted the FY 2003 rental payments. When reporting the operating leases we did not include some executory costs such as maintenance or taxes, which understated the future minimum lease payments. The Office of Finance management will perform a closer review the requirements and calculation of these packages. The Office of Finance will seek further training to ensure the requirements of the GAAP Closing Packages are adhered to in future reporting.

Accounts Payable Closing Package

The Department understands and agrees with the reporting error in the Accounts Payable Closing Package. The Department reported the contract retention amounts on the incorrect form. The Office of Finance management will perform a closer review of the closing package. The Office of Finance management will seek to provide training for the preparation of the State GAAP Closing Packages.

Fixed Assets Closing Package

The Department understands and agrees with the deficiencies in the fixed asset package. The Department has a new Fixed Asset system that was put into place in FY2002 to aid us in compliance with GASB 34. This new system takes the place of manual record keeping which can cause room for error. The Department worked in conjunction with the Comptroller General's Office and KPMG to bring our agency fixed asset system up to speed and in compliance with GASB 34. The Department has realized tremendous improvement over FY2000 audit and with the new system the unexplained differences and contract retentions will be able to be tracked more efficiently.

Miscellaneous Receivables Closing Package

The Department agrees with the findings concerning the Miscellaneous Receivables Closing Package. The Finance Office depends on reports from the State Parks in reporting the information for this closing package. Hickory Knob State Park overstated their receivable, payments had been received in FY 2001, however, and Hickory Knob did not update their files. Hickory Knob has since reviewed and corrected their receivable files to ensure they are not overstated. Hickory Knob has incorporated procedures to prevent this error in the future. The Office of Finance management will perform closer reviews of the reporting process to ensure compliance with GAAP reporting requirements.

Schedule of Federal Financial Assistance

The Department understands and agrees that proper preparation and classification of grants for the schedule needs to take place. The Department has realized tremendous improvement over FY2000 audit and the Auditors in charge noted it. The Department has improved its records for all federal grants and has verified all CFDA numbers and titles and source codes so that future schedules will be correct. The FY2002 schedule was prepared with consideration given to the audit of FY2000 and FY2001.

We appreciate the assistance that the management letter provides to us in our internal control and fiscal management efforts and hereby give our release authorization. We thank you for all your help and advice during our audit.

Sincerely,



Benjamin I. Duncan II
Director, Administration Division

cc: John Durst
Ron Carter
Patsy Sowell

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